THE OPERATION OF THE MUTUAL SAVINGS BANK SYSTEM IN THE UNITED STATES, AND THE TREATMENT OF SAVINGS DEPOSITS

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Probably comparatively few of the readers of this paper realize the immense amount of money deposited in the savings banks of the United States. In addition to the institutions which are known as savings banks, a vast amount is undoubtedly held by national and state banks in states where mutual savings banks are unknown.

The popular impression is that in 1810, or exactly one hundred years ago, the first savings bank was started in Ruthwell, Scotland, by Rev. Henry Duncan. There is considerable doubt about the date that savings banks were actually started. The writer believes that the statement made elsewhere in this paper that they were first founded in Hamburg, Germany, in 1765, is correct. The "Encyclopedia Brittanica" states that savings banks were one of the "many excellent projects of Daniel Defoe in 1697;" but there seems to be no special authority for this statement.

From the best information available, it appears there are but thirteen states which authorize non-stock savings banks with restricted investments, as follows: Connecticut, Indiana, Maine, Massachusetts, Minnesota, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, West Virginia, and Wisconsin. With the exceptions of Indiana, Minnesota, and Wisconsin, these banks are all on the North Atlantic seaboard. Other states authorize stock banks for savings only with restricted investments, and these are California, Colorado, Florida, Idaho, Iowa, Michigan, Missouri, Montana, Nebraska, Nevada, Ohio, Texas, and Wyoming.

This paper, however, is to deal rather with the banks generally known as savings banks, and will have to do with the purely mutual savings banks, the first of which was founded in Germany, in 1765. From this small beginning, grew the great system which has done so much to help the small depositor and investor of the United States.

In the State of Massachusetts alone, October 30, 1909, there was on deposit in the mutual savings banks, of which there are one hundred and eighty-nine, the immense sum of $743,101,481. These represented 2,040,894 depositors with an average account of $364. The total cost of the management which had to do with the handling of this vast sum of money was $1,929,012, or about twenty-six one hundredths of one per cent. In the national banks and trust companies of Massachusetts on the same date, there was undoubtedly a tremendous sum of money which was made up of savings deposits, but which could not be so classified, as they were subject to check.

Using, then, the thrifty old Bay State as an example, it is the purpose of this paper, instead of giving a mass of statistics and figures, to give first an idea of the scope of the work done by the purely mutual savings banks. These, as many do not understand, are agencies authorized and sanctioned by the state to collect and receive savings deposits, which must be invested or loaned as the state laws prescribe, and the profits of which must be returned to the depositors in dividends.

Trustee savings banks were started originally by a philanthropist; and they must, of course, continue to be started, if started they are, and managed by philanthropists in the future. Still using our ideal Massachusetts savings banks as an illustration, say fifty men are the corporators of a bank. Of these, not more than three-fifths may be trustees, and the trustees must elect a number, ordinarily five, who shall be the board of investment, who exercise the same functions as the directors of a national bank should in its management. Then there is a president, treasurer, and a vice or assistant treasurer. Ordinarily but two of these officials are paid large salaries; and the use of the word "large" here is qualified, as the salaries paid in savings banks as a rule are much less than those in national banks or trust companies of the same size. The trustees must meet quarterly, and sometimes oftener, and serve absolutely without compensation. The board of investment ordinarily receive pay for each time they attend meetings; and the members of the board who actually do work in the inspection of loans, or otherwise, are paid a small fee for each service rendered.

Now, the money making spirit of the age causes the average banker to deplore the fact that all the profits accumulated must be returned to the depositors in dividends. He feels, while he does

not admit it, that if it were not for the savings bank, his national bank, trust company, or state bank, could get the deposits, pay a lower interest rate to the depositor than the savings banks pay, and pile up a handsome dividend for the stockholders. For this and other reasons, the writer of this paper doubts whether many more purely mutual savings banks are started or can be successfully operated in states that are not entirely familiar with their splendid usefulness.

The function and efficiency of Massachusetts savings banks cannot be misunderstood or questioned; whether or not the policy of the banks is sufficiently aggressive is seriously doubted. Among bank officials in the smaller communities, there has been a feeling of reluctance to advertise, and in the large cities, the banks, many of them, do not seem to care to grow. Many of the big banks, are somewhat overawing to the average depositor, and it takes too long to make a deposit or withdrawal. On the loaning and investment end of the business, it is, of course, easier in a very large bank to buy bonds which are perfectly safe but which pay a very low rate of interest and to make immense loans on city property, also at a very low rate of interest, than it is to loan to the small borrower. Unquestionably—this is not intended as a criticism of any in particular—the attitude of the large city banks has had a tendency to make the savings banks unpopular.

The limiting of the amounts received from each depositor by the mutual savings bank is a very potent factor in the strength of these truly remarkable institutions. In New York the limit is three thousand dollars from any one depositor; but it is believed that the Massachusetts law, which restricts the amount received to one thousand dollars and allows the money to remain in the bank until it doubles, is safer.

In the Massachusetts savings banks, the average amount to each depositor's credit in 1909, as previously stated, was three hundred and sixty-four dollars. Among the best conducted banks the constant aim of the officials is to reduce the average of deposits, that is, to increase the number of depositors without increasing the deposits proportionally. While this makes a great deal more work in a clerical way for the bank, it is, as is obvious, of great advantage to the bank should there be a run or at a time when the withdrawals exceed the deposits.

While the function of the savings banks, when properly organized, is really educational rather than economic, one phase of their affairs is worth speaking of. Here in Massachusetts, the depositor has no tax to pay on his money in the savings bank, but the banks themselves must pay a tax of one-half of one per cent on their deposits. In Massachusetts in 1908 the running expenses of the state were over twelve million dollars, and of this, the savings banks paid in taxes one million nine hundred thousand dollars, or practically fifteen and one-half per cent of the total expenses. Few people know that savings banks must pay the tax on their deposits, and the reader must realize what a tremendous help financially it is to the good old Bay State that it has so many savings banks in it.

The savings banks should furnish a safe place for the deposit of wages and small earnings, paying a fair interest to its depositors; but its chief object should be to teach the art of saving. In that sense it is educational, as stated in a previous paragraph, and there can be nothing compulsory in its methods as there is in co-operative banks. It must in every way make an effort to have its banking rooms, its clerical force, and its business, conducted with as little red tape, and made as attractive, as possible.

There is a great deal of popular misapprehension about unclaimed accounts, and many people think these unclaimed deposits are absorbed by the bank with an actual loss to the heirs or to those who originally made the deposits. This is a fallacy, for in most states, as in Massachusetts, every fifth year a return of these accounts must be made to the bank commissioner. In 1907 there were 1,921 accounts in the 189 Massachusetts savings banks, aggregating $567,932.85 on which no deposit or withdrawal had been made for twenty years, and these were duly advertised as required by law and the money will ultimately go to the state, who will return it to the rightful owners, should they appear.

It may be well to quote the Massachusetts statute covering this point, as there is so much misunderstanding about it. The law quoted is absolutely fair, and one which any state may well follow:

The probate court shall, upon the application of the attorney general and after public notice, order and decree that all amounts of money heretofore or hereafter deposited with any savings bank or trust company to the credit of depositors who have not made a deposit on said account or withdrawn any part thereof or the interest, or on whose pass books the interest has not been

added, which shall have remained unclaimed for more than thirty years after the date of such last deposit, withdrawal of any part of principal or interest, or adding of interest on the pass book, and for which no claimant is known or the depositor of it cannot be found, shall, with the increase and proceeds thereof, be paid to the treasurer and receiver general, to be held and used by him according to law, subject to be repaid to the person having and establishing a lawful right thereto, with interest at the rate of three per cent per annum from the time when it was so paid to said treasurer to the time when it is paid over by him to such persons.

Much of the legislation aimed at savings banks, particularly in Massachusetts, is most unwise and represents some misguided enthusiast or some one who has a personal miff against some bank or some bank officer. However, there is occasionally a bill presented which has desirable features; but it seems almost as if the old conservative banker wanted to do things just as he has always done them. Hence, at a hearing before a legislative committee, a savings bank official frequently appears, sometimes properly authorized by an association or bank, but ordinarily entirely on his own responsibility, opposing blindly something which may have many desirable features.

The writer firmly believes that there are several innovations that savings banks could adopt which would not only tend to popularize them, but actually to make them more useful in their various communities. Every savings bank should be open at least one evening a week for the benefit of the very people it is trying to help, the working classes who cannot go to the bank during the usual hours without losing time. Many do this, but the majority do not.

The active officers and clerical force of a saving bank should be selected with great care, much more so than the same people holding positions in a commercial bank; this for the reason that the average savings bank depositor does not understand, at first, just what he is expected to do, and oftentimes in honesty does many provoking and annoying things. Tact and patience are required to explain the various steps; and these, I regret to say, are not always in evidence in the savings banks.

Right along this line, there is another and a very practical way savings bank officials could greatly increase the scope of the work their banks now do, and this is particularly true of manufacturing

cities. The officials should at any time, when invited, be free to talk before schools, woman's clubs, labor unions, young people's religious or other organizations, not to advertise the particular bank with which they are connected, but to explain in a large sense the work, usefulness, and earning power of the savings bank accounts. In any audience there are always some who can be enlightened, and there is practically no limit to the opportunities in this direction.

Savings banks should advertise, I firmly believe, and may receive as direct benefits in increased deposits as would a store in advertising a bargain sale.

Another feature which would probably vastly help the smaller communities where there are no banks of any kind, would be branch savings banks. While the postal savings banks will undoubtedly take care of a great deal of this business, yet, on account of the lower rate of interest they will pay, these branches should be successful. The Massachusetts law says that a bank may, with the written permission and under regulations approved by the bank commissioner, maintain and establish one or more branch offices, for the receipt of deposits only, in the city or town in which its bank is located, or in towns not more than fifteen miles distant therefrom, in which there is no savings bank at the time when such permission is given. While but one bank, I believe, has taken advantage of this, there is undoubtedly a great need for these branches, and the trustees of savings banks should consider them seriously.

Another way in which the mutual savings bank may be of inestimable benefit to the working man, is in the savings bank life insurance plan. In Massachusetts, savings banks have been permitted to enter into it for the past few years and two banks have tried the experiment. There is an entirely natural reluctance among the trustees of the ordinary savings bank to go into anything so radical as the savings bank insurance, which, as may not be generally known, is practically industrial insurance at cost. Should this be taken up by the banks of Massachusetts generally, and receive any support from the working classes, it would undoubtedly operate as a substitute for the old-age pensions of Germany and England and be much more desirable. Some of the most level-headed business men of Massachusetts are strongly in favor of all savings banks opening an insurance department, but as yet it is an experiment and cannot be said positively from experience to be of benefit to

the banks or to their depositors. The real question to decide is, granting that involuntary insurance is bad in principle, can voluntary insurance ever be popular enough to be successful?

Another way in which the savings bank could be much more useful is to work more in co-operation with the advocates of the school stamp savings. There are many of these in several of the Eastern states which do good work and are of unquestioned benefit to the children in teaching them to be thrifty, even if the money is not deposited in a bank. It would be better, however, if the stamps which the children buy were redeemable only at a bank rather than at the office of the associated charities, or some similar organization, as is ordinarily the case. There should be no opportunity for the child's confusing in his mind the saving of his pennies with any charitable or even religious organization. While these small accounts cause more or less bother to the teller at a bank, this should be more than offset by the ideas of thrift that would be inculcated in the mind of the child.

The school savings were first adopted in 1834 in a school in Le Mans, France. In 1846, the system was adopted in Würtemburg, and in Budapest, in 1866. The same year, in Belgium, one of the professors of the University of Ghent traveled about the kingdom explaining the advantages of the school system; and, by 1891, nearly $800,000 had been saved in the banks by the children of that country alone. France now leads the world in this educational and thrifty work, and the system has been introduced in most of the countries of Europe. The writer believes that this work should be talked by savings bank officials with the idea that the banks cheerfully do the clerical work, if the teachers, who ordinarily collect the money, would make special efforts to see that the child be directed to put in the bank at least part of his money.

The vital question is, do these savings banks invest their deposits safely? There can be no question about it whatever. The mutual savings banks of New York and the New England states, for instance, have as small proportion of losses as any banking institutions in the world. As previously stated in this paper, the managing board of trustees is a body of men who have no other motive in giving their services than their devotion to the cause, and they receive no pecuniary reward. This greatly reduces the chances of dishonesty or of a betrayal of the trust; and while there are, and

probably always will be, instances of dishonesty in savings banks, the record is wonderful considering the volume of business done.

The chief feature in the assets of a savings bank is its mortgage loan. This is ordinarily the largest item as well as the most important; for in its policy and care-taking of its loans on real estate lies the real success of the bank. While it is easier to make the large loans on the city block, which bear a low rate of interest, it is true that the bank which confines its energies to this line alone does not perform its real work in the community. A mutual savings bank should always be glad to loan on real estate to the small borrower and to the man who is helping a city to grow by building homes for its mill employees. Such loans as these are really more remunerative to the bank, as they yield a larger interest return; but they do, of course, make a great deal of work for the bank's force.

Among the best conducted banks of the writer's personal acquaintance, it is now the custom to vote loans with the understanding that the principal will be reduced not less than so much each year, fixing the amount by the opinion of the bank's inspectors as to what the property would depreciate in value each year. As a matter of fact, a reinspection of all mortgage loans is now required by the Massachusetts law, which demands that after a loan has been held by a bank for five years, not less than two members of the board of investment shall certify in writing according to their best judgment the value of the premises mortgaged, and the premises shall be revalued in the same manner every five years as long as they are mortgaged to the bank. Unfortunately, it has been the custom of some banks to make excessive loans, and of other banks to make a loan and never look at it again until their attention was called to it by a default in interest payment or taxes, when they find a run-down piece of property on their hands. Thus, as I have said, the real estate loans are really the most important feature in a bank's statement.

Then the bonds; and here, of course, we have assets that should be absolutely gilt-edged, as the ordinary savings bank buys only railroad or municipal bonds of whose validity and security there can be no question. As has been hinted in this paper, however, a bank may very easily have too many bonds which pay a small interest return but which are easier for its officers to handle; and, therefore, while very strong financially, such banks are really earn-

ing less than they should and therefore are not fair to the depositors. In the panic of 1907, some of the savings banks found out that bonds were not so fluid an asset as they had thought.

There is a great difference in the amount of personal loans held by savings banks; and there should be, as there is a great difference in the capacity of different boards of investment to pass on a personal loan. The writer is using the term "personal loan" in the sense of any loan that is made on names alone or on collateral security. Many banks have boards on which are national bank directors or officers who are entirely competent to pass on paper. Other banks, generally in the smaller communities, know nothing about such things at all, and should confine their energies to other lines. As a matter of fact, very few losses have ever been made by Massachusetts savings banks on strictly personal loans, that is, loans without collateral. These are ordinarily looked over with great care, while a collateral loan may be given less attention. These personal loans yield a higher rate of interest, generally, than even mortgage loans, are much more fluid; and, properly made, a certain amount of them are very desirable in a bank's assets. In Massachusetts a bank may lend not exceeding one-third of its assets in such securities.

October 24, 1907, Mr. Charles A. Conant published, in the New York "Evening Post," an article which has a direct bearing on the matter we are now discussing; and while it was written as an abstract proposition, certain phases of it seem to apply to the desirability of savings banks carrying some personal loans, otherwise and commonly known as commercial paper. He stated that

The piling up of loans upon pyramids of inflated stocks and bonds is due in a large degree to the great development of industrial securities in recent years. Such securities do not represent circulating capital but fixed capital. They are simply obligations or shares in mill, railway, or mine, which represent a permanent investment. . . . Securities circulate, but the property they represent is fixed. They are not, therefore, in any proper economic sense circulating capital and are not the best basis for the investment of deposits payable on demand. Commercial paper represents circulating capital. In other words, it is the product of purchases on raw material which are converted in a short time into finished products whose sale for consumption affords the means to pay off the paper and thereby closes the transaction. When money is borrowed on securities, no transaction of this character takes place and there is no natural and normal date for closing the transaction. Managers of banks seek to give the character of circulating capital to securities by advancing

money on them subject to repayment at call. This system works admirably in periods of prosperity, but it causes convulsion in times of adversity. The owner of a part of a mill, railroad, or mine cannot convert the property into circulating capital. In his efforts to get rid of his share of it, when he finds that the banks are curtailing their loans, he is compelled to make great sacrifices or shoulder the loss upon the banks by failing to make good his margin. . . . Nothing of this kind occurs in dealing with commercial paper and the losses thereon are calculable and, as a matter of fact, are a fraction less than one per cent per annum.

I believe this to be sound reasoning and, from experience, one bank, of which I have personal knowledge, which has been in successful operation for sixty-four years, absolutely bears out the contention of Mr. Conant.

Going back to the statement made early in this discussion, the writer, for a variety of reasons, doubts whether many more purely mutual savings banks will be started, but this does not imply that the people will be any less saving. It would be ridiculous for a bank man in New York, for instance, to go to Illinois and try to get the legislature there to pass laws similar to that of New York or any of the New England states in regard to savings banks; this for the reason that the present Illinois law seems to work absolutely satisfactorily and with entire safety to the depositor where the banks are allowed to do practically all kinds of business. It works against the depositors in one way, of course, that they receive a lower interest return than they would in a bank in one of the Northern Atlantic seaboard states. But that is not so essential, so long as their deposits are safe.

Michigan has excellent laws, due, in a large degree, as the writer believes, to the efforts and activities of Mr. J. H. Johnson, president of the Peninsular Savings Bank of Detroit, Michigan.

Assuming for the sake of argument that the states that do not now have a mutual savings bank law will not pass one, would it not be vastly better if the institutions which do receive savings bank deposits were compelled to segregate them and invest their savings bank deposits along the lines that the mutual savings banks are now compelled to, or as a probate judge in the various states would allow trust funds to be invested? The writer has given this subject much thought and is firmly convinced that, ultimately, all savings deposits must be segregated.

In Massachusetts, a few years ago, a bank was looted by an

official who juggled the securities of a national bank and savings bank with which he was connected in such a way as to deceive the examiners. United States Senator W. Murray Crane, one of the shrewdest, most far-sighted and kindliest of men, then governor of the state, put a law through the legislature absolutely separating national and savings banks and not allowing one man to serve as an officer of both kinds of banks. In spite of the active opposition of the banks, this law was passed practically unanimously, and it has proven to be most wise legislaion. However, trust companies sprang up everywhere and these began to do exactly what national banks and savings banks were not allowed to do, that is, all kinds of business under one roof. So, very recently, the Massachusetts legislature passed a law compelling trust companies to segregate their savings deposits. The writer trusts their officials are having no difficulty in defining what of their deposits are actually savings.

Suppose there should be in the city of Chicago, for instance, a failure of one of the big national banks or trust companies and it should develop that a vast number of poor people who had entrusted their savings to the savings department had been hit, the legislature would pass a bill compelling segregation and division of the banks just as quickly as they did in Massachusetts, whose legislature is proverbially conservative and careful.

Segregation is, and probably will be for a long time, unpopular with the trust company or national bank man, the great majority of them looking upon it with distrust. I feel, however, had they viewed it rightly five years ago, that they would not have had the postal savings bank forced upon them. I firmly believe, as was expressed in a recommendation of the law committee of the savings bank section of the American Bankers' Association, of which the writer is a member, "Savings deposits in all banking institutions should be segregated from commercial and other deposits and invested in such classes of loans and securities as experience has shown to be amply safe, and that such investments should be held for the special benefit of the savings depositors."

In the states, then, which have no mutual savings bank law, I look forward to seeing tremendous savings deposits in the national banks, trust companies, and state banks. The mutual savings bank deposits will grow proportionately, as they always have, while in the West and South, with their magnificent futures, these other

banks should get the deposits. I firmly believe that the postal savings banks will get the bulk of their deposits in the West and South because there are no mutual savings banks and because the depositor realizes that his money is placed in a bank operated for private profit, where, if disaster comes, he must lose as would the ordinary commercial depositor.

While it will be slow in coming, I hope to see savings deposits, wherever held, segregated. Even if my work were not in a conservative New England savings bank, I would as strongly advocate as I do now the segregation of deposits. I can conceive of no better advertisement for a trust company, being operated, for instance, in a large city in New Jersey, than to advertise for savings deposits and to say that *there* such deposits are *segregated* and that the poor people's money is safe anyway regardless of what might happen to the bank.

As the postal savings banks will be in operation next year, a word or two of them may be of interest here. There is no question but that savings banks first came under legislative control in Great Britain, and peculiarly enough, it was also there that the postal savings bank was first started.

While this paper is supposed to deal with savings banks alone, so many of the officials of not only savings banks, but trust companies and national banks as well, opposed the passing of the postal savings bank bill that it is fair for the writer to state here that since he has made a study of the question and visited the West and South, he has become a staunch advocate of the postal savings bank. I believe that they will be a good thing for the government of the United States and a splendid thing for the people, especially the newcomer, who has more confidence in the government than in the banks. I believe that in any locality, even in the New England states, there is a certain class of people who will deposit money now concealed in old teapots and other equally desirable places, which has never, and would never, get into any existing banking institution. I believe it is the function of a bank official, and especially of a savings bank official, to aid in every way he can the wage earner, and especially the very poor, to be thrifty. Whether or not they happen to deposit in the bank or class of banks that he represents should not be considered; but the banker should look at it, as congress evidently did, in the largest sense. This matter, more-

over, is one in which politics should not be permitted to enter one particle.

The English postal savings bank went into operation first, in 1861, in England alone; but in 1862 it was extended to Scotland and Ireland. The following classification of patrons taken from a recent annual report is interesting and shows that the banks are doing good work:

Professional	1.55
Official	2.81
Educational	1.01
Commercial	3.88
Agricultural and fishing	1.33
Industrial	18.43
Railway, etc.	2.96
Tradesmen and other assistants	8.14
Domestics	8.61
Miscellaneous	0.37
Married women, widows and children	50.41

Postal savings banks have spread rapidly, particularly among progressive countries. Canada adopted them in 1868, Belgium in 1870, Italy in 1876, The Netherlands in 1881, France and Sweden in 1882, Austria in 1883, Hungary in 1886, and still later they were adopted by Finland, Russia and a number of the British colonies in Australia and Africa, and finally by Japan. In all these countries, the postal savings bank has proved of inestimable value to the government and the people. If in the United States, politics can be kept out of the management of the banks, there is no question whatever in the writer's mind that they will be, inside of ten years, a wonderful factor in the welfare of the United States. The trustee or mutual savings bank cannot be relied upon to reach into the small communities nor to cover a wide territory. As earlier hinted in this article, it is best adapted to that community where the inhabitants are naturally conservative and philanthropic. Hence the remarkable success of these institutions in the New England States.

The postal savings bank affords a depository in every hamlet large enough to have a postoffice. If when the places are large enough for national banks or trust companies, the officials find that the true savings deposits are all going to the postal savings banks,

they should increase their interest rates and segregate their deposits and advertise the fact.

Savings deposits will continue to abound and grow, and the public, and the bank directors, must insist that the savings of the poor, of the man, woman and child who work to earn what they deposit in the bank, be kept safely. If it is too much to ask for mutual savings banks, then let us, in an educational and not pugnacious way, work for the segregation principle.

To summarize: It is obvious that the people of the United States are naturally the thriftiest in the world. The children of the immigrant who comes here unable to read or write, get at least a common school education and go to work. They earn money and they save it; and they become, as a whole, as the history of every New England manufacturing city proves, better citizens than their fathers. Such is the civilizing influence of America.